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Briefing
European Investment

February 2017

SUMMARY

Activity in 2016 still third highest on record

■ Despite the drop (-15% yoy) in total investment volumes, 2016 was another year of strong activity; the third highest on record since 2006 at €207bn. Decreases in the largest markets (UK and Germany) were mainly responsible for the overall decrease.

■ Overall, offices maintained their top position as the preferred asset. There was a notable rise of investment in industrial properties, which increased their share from 8.7% in 2015 to 10.8% last year. Alternative investments also strengthened their position in many markets as investors shifted their attention to higher yielding, long-term income producing assets.

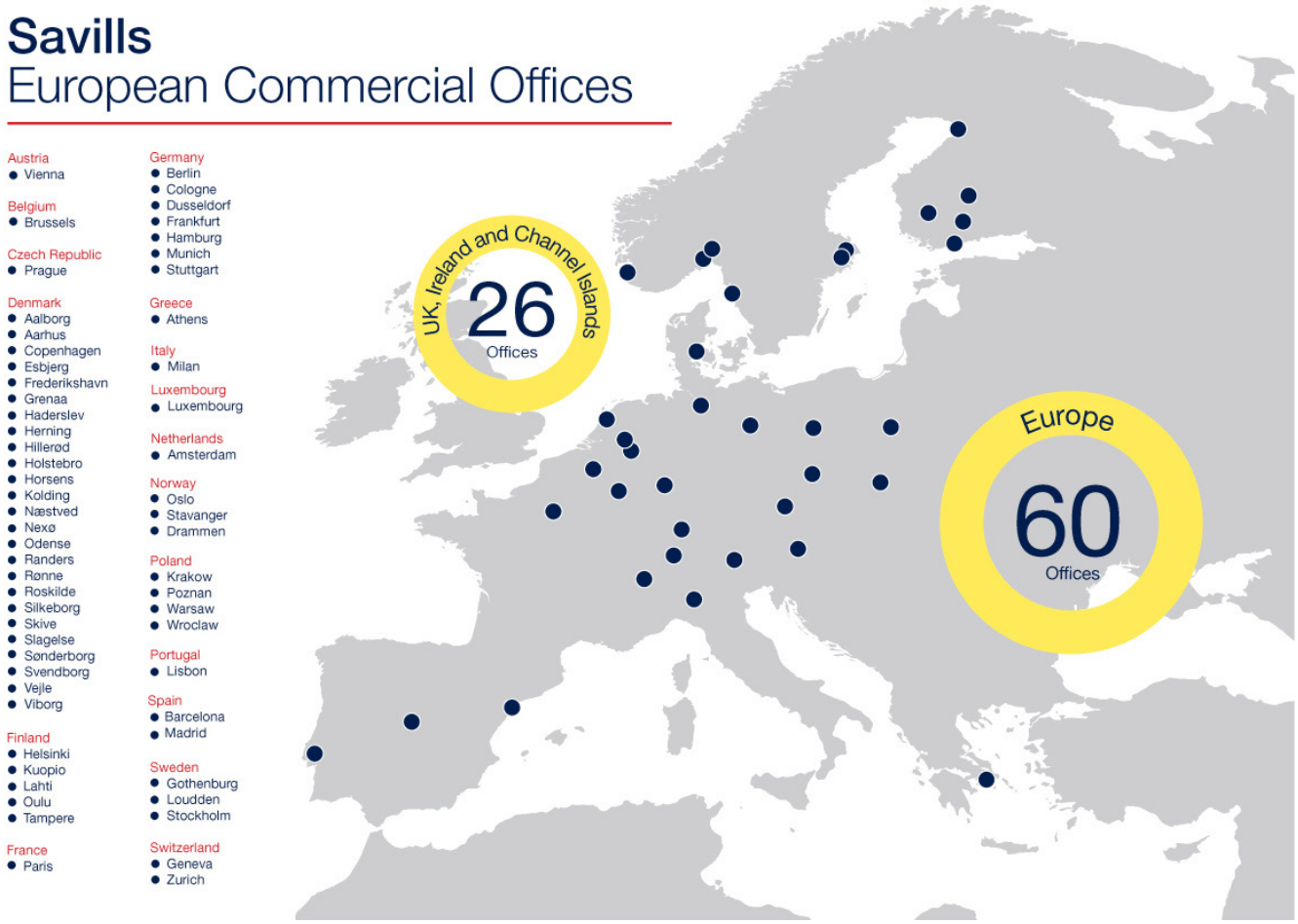
■ We believe that European real estate will be a target for investors for another year who are looking for less volatile assets with higher returns than the ones offered by other asset classes and for cross border players who seek diversification and exchange rate gain opportunities (particularly in the UK). However, the scarcity of prime opportunities will again restrict investment volumes.

■ We expect investors to focus on markets and assets with strong fundamentals (low supply and strong demand), good rental growth prospects (due to recovery or market imbalances) and alternative assets (such as residential).

■ Prime yields in most locations have reached or even exceeded their past peak, nevertheless we may see further, modest, yield compression. This will be allowed by historic low risk free premia, despite the fact that they are due for slight increases this year. According to our base scenario, prime yields will harden in 40% of our markets.

"Scarcity of prime product will restrict investment volumes for another year." Eri Mitsostergiou, Savills European Research

An introduction to Savills



Source: Savills

Savills is a leading global real estate service provider listed on the London Stock Exchange. The company, established in 1855, has a rich heritage with unrivalled growth. The company now has over 700 offices and associates throughout the Americas, Europe, Asia Pacific, Africa and the Middle East.

In continental Europe, Savills has 48 offices covering Belgium, France, Germany, Greece, Italy, the Netherlands, Poland, Spain and Sweden. We also have associate offices in Austria, Denmark, Finland, Norway and Portugal.

Savills provides a comprehensive range of advisory and professional property services to developers, owners, tenants and investors. These include consultancy services, facilities management, space planning, corporate real estate services, property management, leasing, valuation and sales in all key segments of commercial, residential, industrial, retail, investment and hotel property.

A unique combination of sector knowledge and entrepreneurial flair gives clients access to real estate expertise of the highest calibre.

We are regarded as an innovative-thinking organisation supported by excellent negotiating skills. Savills chooses to focus on a defined set of clients, offering a premium service to organisations and individuals with whom we share a common goal. Savills is synonymous with a high-quality service offering and a premium brand, taking a long-term view of real estate and investing in strategic relationships.

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Economic & political background

Despite the political rollercoaster in 2016, the European Commission forecasts average GDP growth of 1.6% in 2017 and 1.8% in 2018 in the euro area and all EU Members set to grow in 2017 and 2018. GDP growth forecasts have been revised upwards thanks to a surprisingly strong second half in 2016 and an upbeat start to 2017. FocusEconomics predicts the Eurozone to grow 0.4% in Q1 2017. However, Britain's Brexit negotiations will soon be underway with Prime Minister Theresa May likely to push for a "hard Brexit". The upcoming elections in the Netherlands, France and Germany may have an impact on EU growth with voters increasingly rejecting the status quo and turning to anti-EU and anti-immigration populist parties.

Unemployment across the EU-28 continues to fall. In December 2016 the unemployment rate fell to 9.6%; down from 10.5% in December 2015 and this trend is expected to continue in 2017. Youth unemployment fell even further from 21.8% in 2015 to 18.6% in December 2016. The improving labour market and increasing consumer spending will continue to drive economic growth across the EU-28 with consumer spending forecast to increase 1.6% in 2017. The ESI rose noticeably in France (+2.0), the Netherlands (+1.9) and Germany (+1.6) and export growth is likely to grow due to the depreciation of the euro.

Inflation in the EU is expected to increase due to an increase in energy prices. EU inflation is forecast to increase from 0.3% in 2016 to 1.8% in 2017 and 1.7% in 2018.

The share of the largest markets drops

Despite the decrease (-15% yoy) in total investment volumes, 2016 was another year of strong activity, the third highest on record since 2006 at €207bn. For some markets it was even the best year on record for commercial property investment: in Italy activity was close to €8.6bn (25.5% yoy), the Netherlands exceeded €9.8bn (24.4% yoy) and in Sweden the volume was over €14.4bn (32.2% yoy). Volumes were also higher on an annual basis in Denmark (17.2%), Finland (5.2%), France (3.1%) and Ireland (19.8%). The remaining markets experienced considerable drops in investment volumes, mostly due to the lack of supply of investable product.

A 31.4% decrease in the UK and a 8.7% decrease in Germany, which together accounted for almost 55% of the total activity in Europe, are mainly responsible for the overall decrease. It is worth noting that the share of the big three markets (UK, DE, FR) dropped for the first time below 70%. This is partly a symptom of high competition for limited supply of prime product, which leaves some investor requirements unsatisfied and partly due to the uncertainty around the post-Brexit market conditions in the UK.

The UK remains the largest commercial investment market at €59.1bn, followed by Germany at €52.7bn, France at €27.4bn and Sweden €14.8bn. The Netherlands, Italy, Spain and Norway follow with volumes between €6bn and €10.0bn each.

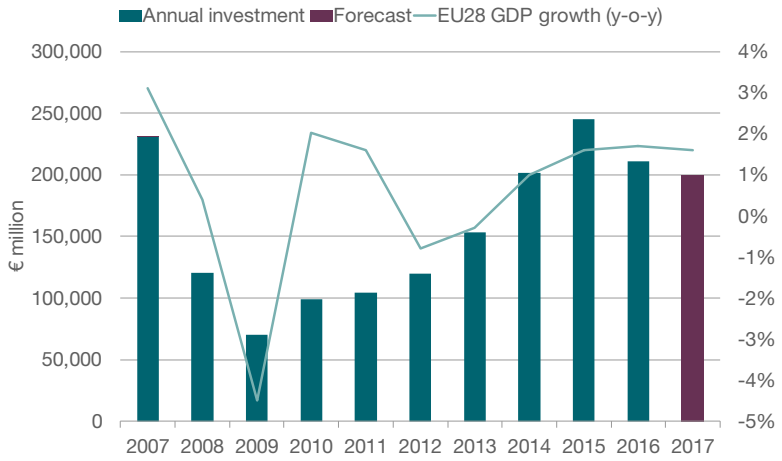
Industrial and alternatives on the rise

Overall offices maintained their position as the preferred asset type and increased their share from 42.1% in 2015 to 45.4% last year. On the other hand, the share of retail dropped slightly from 25.7% to 23.1%, mainly due to less availability of product on the market.

The share of industrial investments increased from 8.7% in 2015 to 10.8% last year. In some markets, investment into industrial properties captured between 15% and 20% of the total activity, such as in the Netherlands (20.1%), Norway (17.9%) and Sweden (17.1%). Confidence in the sector is underpinned by the growth of e-commerce and new logistics technologies, which trigger demand for modern distribution warehouses, particularly in the markets with high share of online sales and strong consumer spending. Last mile-delivery is creating the need for more 'urban logistics' facilities and potentially also an investment segment that will attract more investor interest in the coming

GRAPH 1

European investment vs. economic growth



Source: Savills, Eurostat

years. The largest amount was invested in the UK industrial market (almost €6.9bn), followed by Germany (€4.7bn), Sweden (€2.5bn), France (€2.3bn) and the Netherlands (€2bn).

The share of other investment types, namely alternative investments (excluding multifamily apartments) dropped from 21.8% to 17.4%, mainly due to lower volumes transacted in the UK. However, if we look more closely, in many countries the share and volume of alternative investments increased significantly last year: Norway 144% yoy to €803.7m; France 14% yoy to €3.7bn; Sweden 31% yoy to €3.8bn; Finland 30% yoy to €677m; and Germany 18% yoy to €7.1bn. The motive behind this increase is investor focusing on higher yielding, income producing assets (student housing, senior housing).

Cross border investors focus on mainland Europe

Cross border investment dropped from €120.8bn in 2015 to €94.9bn in 2016; 80% of this decrease is attributable to lower cross border volumes in the UK, which were at €26.7bn last year compared to €48bn the year before. Some international investors have decided to avoid the British market until the effects of Brexit become clearer, while others have taken advantage of the weaker GB pound to buy at a discount. Indeed, last year saw a record proportion of acquisitions of London commercial property by non-domestic investors at 80%, with the most active group being investors from Asia Pacific.

In Europe the volume of cross border investment also decreased in Germany, despite the fact that it is the main focus of international investors. Competition for good quality assets with positive future rental growth potential, especially offices, is high and the supply of product still does not meet demand. Nevertheless, more opportunities are coming onto the market as German investors are taking advantage to dispose in a highly-priced market. Elsewhere the volumes of cross border investment have increased: 54% yoy in Ireland; 38% yoy in Sweden; 13% yoy in France and 12% yoy in the Netherlands.

Mega deals and portfolio transactions

Mega deals of over €100m were responsible for 36.9% of market activity last year compared to 43.7% the year before. Despite the fact that total volumes decreased from €109.3bn to €76.4bn, large-scale acquisitions by cross border investors underpinned activity across several countries.

Portfolio deals also dropped by 10% yoy in 2016, after increasing by an average of 37% pa over the previous five years. It is likely we will see individual properties or larger parts of these portfolios coming onto the market over the coming year, as their holding periods come to an end. In Spain, 18 mega deals were registered in 2016; 50% above the 2015 figure accounting for 52% of the total annual turnover. Poland saw the second highest year of commercial investment activity after 2006, driven by strong cross border investment and large portfolio transactions, which accounted for 42% of the total.

Large scale deals and portfolio transactions have also emerged in the Nordic region, which now constitutes a single market area for a number of investors, supporting the supply of intra-Nordic portfolios on the market as well as the creation of new Nordic funds alliances. Over the past two years, portfolio transactions in the Nordic region were at €13bn in 2015 and €12.5bn in 2016; more than 70% higher compared to 2013 and 2014 levels.

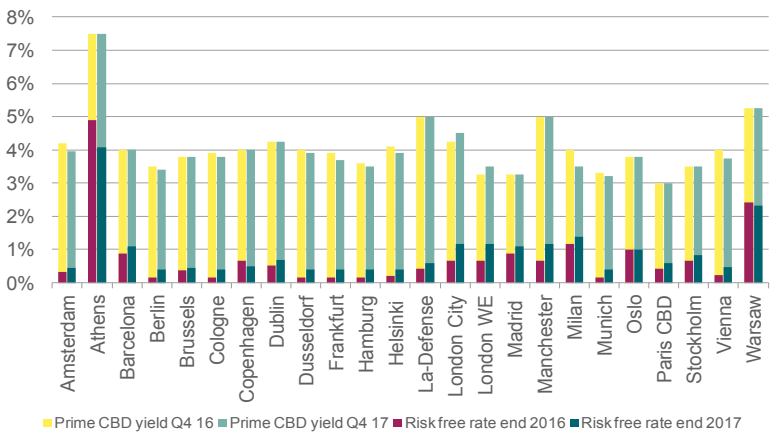
Yield compression across all commercial sectors

As a result of the lack of quality space in the CBD, investors are looking towards non-CBD and secondary locations resulting in the yield gap narrowing further. The average prime CBD office yield in our survey area dropped to 4.1% in Q4 2016; down from 4.4% in Q4 2015 and 90 bps below the five-year average.

On an annual basis, the biggest yield moves were seen in the peripheral and Nordic markets which moved

GRAPH 2

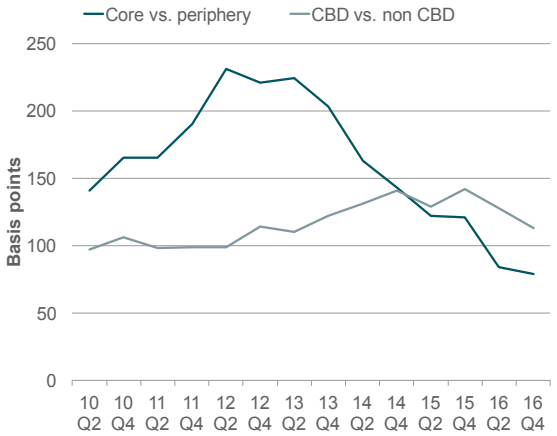
Prime CBD office yield composition



Source: Savills, Focus Economics

GRAPH 3

Prime CBD office yields



Source: Savills, core = UK,FR,DE, periphery=IT,ES,IR,GR

in by 50 bps and 40 bps yoy respectively, reflecting the increasing investor interest outside of the core markets. Investors will continue to focus on the peripheral markets where average prime CBD yields stand at 4.75% compared to 3.85% in the Nordics and 3.91% in the core markets.

The majority of the core markets saw little or no movement, however, yields softened by 25 bps in London City and London West End due to, among other things, the EU referendum. The gap between CBD and non-CBD is narrowing. The average non-CBD yield across our survey area moved in 62 bps yoy and 25 bps qoq and currently stands at 5.0%; 106 bps below the five-year average. The highest annual compression for non-CBD offices were seen in Copenhagen (-175 bps), Munich (-150 bps), Oslo (-125 bps) and Stockholm (-115 bps).

There was little or no shopping centre yield movement in just under half of the markets in our survey area, whereas yields fell significantly in Vienna (5.5%-4.0% yoy), in Stockholm (5.0%-4.0% yoy), in Milan (5.75%-5.0% yoy) and Madrid (5.0%-4.25% yoy).

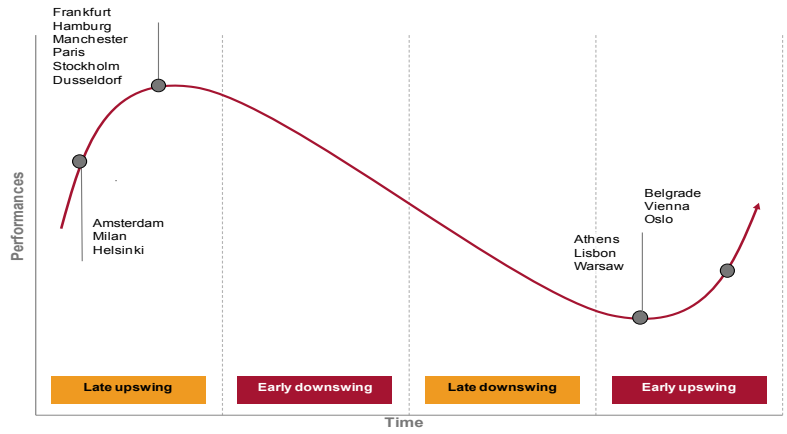
The average prime industrial yield moved in by 36 bps with noticeable yoy shifts in Helsinki (-120 bps), Milan (-75 bps) and Oslo (-75 bps). We expect further hardening in Austria, Germany, Denmark and Sweden whereas all other markets should remain stable.

According to our base scenario, prime yields will remain stable in 60% of our markets and some further yield softening is expected in the UK. However, some sectors will experience further yield compression (albeit modest) due to the historic low risk free premia. This is most likely to be noted in alternative, niche asset classes, such as student housing, health care, in-town logistics warehouses and B locations with good market fundamentals, such as good quality non-CBD offices in cities with low vacancy rates (Berlin, Munich, Paris, and Stockholm) or regional city offices in Germany.

According to Consensus Forecasts, 10-year government bond yields in the Eurozone are expected to rise slightly over the course of the year from 0.91% in 2016 to 1.16% at the end of 2017 (weighted average). Nevertheless, the spread with prime office yields will still be at 267 basis points, with the highest spreads expected to be noted in Paris LD (413 bps), Helsinki (332 bps), Dusseldorf (332 bps) and Amsterdam (329 bps).

GRAPH 6

European Prime Office Rental Cycle Q4 2016



Source: Savills

OUTLOOK

Lack of prime product will constrain activity

- Overall European economic growth is expected to be positive but weak in the Eurozone,a nd the quantitative easing program to be extended until the end of the year, with interest rates at historic low levels. Eurozone interest rates have been below 1% since mid-2012. In this context, fund managers are adjusting their return targets downwards and are willing to accept lower yields.

- High competition for prime assets in the core markets is expected to intensify once again, due to downside risks and uncertainty caused by the unpredictable outcome of elections scheduled for 2017 (France, Germany, and the Netherlands). We believe that investors will focus on markets with stable socioeconomic conditions, such as France, Germany, Benelux, Nordics, Austria, looking for opportunities across sectors including non-prime, value-add opportunities.

- Given the limited prospects for significant capital growth, markets and sectors with rental growth potential will also be high on investors' agendas. Dublin, Madrid and Barcelona, are some of the cities where we expect positive rental growth trends in the retail sector, while Dublin (6.3%), Milan (4.0%), Madrid (3.6%), Barcelona (4.7%), Stockholm (8.3%) and Berlin (6.0%) are the top cities for rental growth in the office sector.

- Investors with long term strategies will also look for assets that offer long-term stable income streams in the residential sector. Student housing, healthcare and multifamily assets* are gradually becoming more institutionalised, developed and run by specialist developers and operators. Prime yields in some of these segments can already be quite low, they offer though long-term income stability and rental growth prospects in some cases. The UK, Germany, the Netherlands, France, Spain, Sweden and Finland have already experienced significant investment volume growth over the recent years in these market segments and we expect them to continue so in 2017.

- On the supply side, we may see more disposals by funds and REITs with assets approaching maturity, as well as from investors that want to benefit from the ultra-low yield environment. Nevertheless, overall we anticipate the lack of product to hinder investment volumes for another year, particularly in the core markets leading to a reduction of -9% yoy of the total transaction activity by the end of 2017.

*multifamily is not included in our analysis of commercial investment activity

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The transaction volume in the Viennese investment market amounted to €2.7bn in 2016 and thus did not meet expectations entirely. This is a decline of approximately €800m or 20% compared to the previous year. Office transactions continued to make up for the lion's share of the investment volume with 36%, followed by the hotel segment with 29% and retail with only 13%. Among the biggest transactions in the office segment of the year were the sale of the IZD Tower to CBRE Global Investors and the sale of the Solaris and the Florido Tower to the French Amundi Group. In retail the sale of a nationwide portfolio with 88 properties to a private investor was the biggest transaction.

There are two reasons for the decreased investment volume. The first is the generally scarce supply of top properties, which has limited the market activity considerably. 2016 saw a record low in deliveries, both in the office and in the retail segment. This has led to an increasing interest in alternative market segments, such as student housing or retirement homes, which show above-average growth rates. Second, several large-scale transactions could not formally be completed in 2016 and will show up in the statistics for 2017.

The outlook for 2017 is very positive. In the office segment, supply will rise considerably in 2017 and 2018 with several highly attractive office buildings with a total of 500,000 sq m coming onto the market. Those properties will further boost the investment market and it is expected that a volume of €3bn will be reached in 2017.

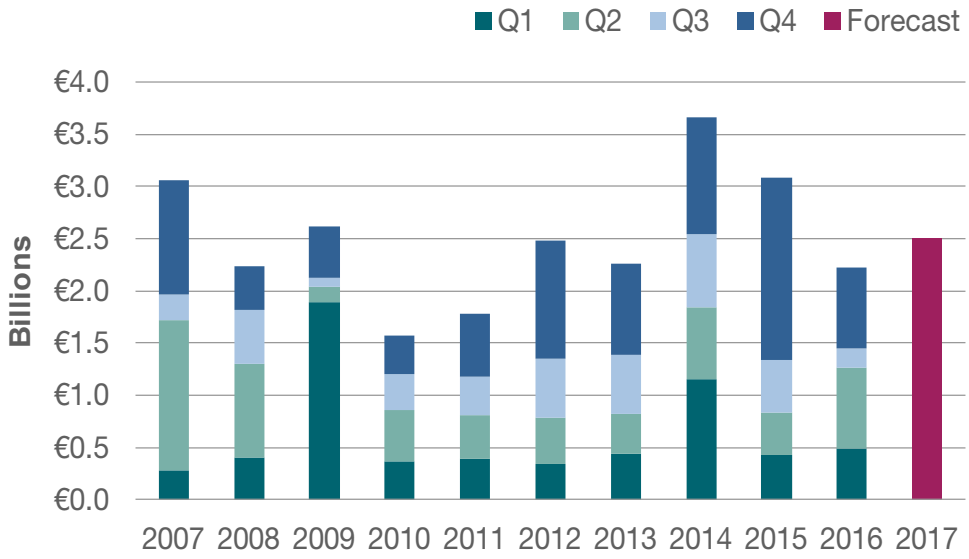
Demand continues to be strong and largely exceeds supply. Especially highly solvent investors from countries, that have not been very active on the Austrian market so far, such as the United States or China, are entering the market. They are mainly interested in large-scale transactions exceeding €100m and are driving the prices further up with the price increase for secondary properties being even stronger than for prime products. Yields remain under pressure and have continued to decrease. Prime yields are currently at 4% in both the office and retail segment and are expected to decline even further.

PRIME YIELDS END-YEAR OUTLOOK

Offices	↘
Retail	↘
Industrial	↘

GRAPH 1

Austria Investment volume 2007-2017



Source: EHL

TABLE 1

Major investment transactions Q4 2016

Property	Location	Price	Buyer	Usage
IZD Tower	Vienna	€270m	CBRE Global Investors	Office
Tech Gate	Vienna	€72m	Strabag	Office
La Stafa - Ruby Marie Designhotel	Vienna	€90m	CBRE Global Investors	Hotel

Source: EHL

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The 2016 investment volume in Belgium stood at around €3.6bn, compared to 2015 this is a 28% decrease. The €3.6bn invested in 2016 makes it the second best year post-crisis.

Out of the total commercial real estate investment volume, offices reflected over nearly €2bn or 52%, retail stood at 30% with €1bn and hotels and logistics both at 5% with around €200m. Senior residences and student-housing reflected around 7% of total market share.

The Brussels Capital region reflected €2.4bn, 65% of total investment volume which is well above the average of 50% during the last 10 years. Belgian investors represented over 55% of total buyers, Asian investors (Taiwan and Korea) accounted for around 17% and German investors represented over 10% of the active buyers.

The top five transactions during 2016 were Mediacité SC reflecting €255m, Ellipse (office - €215m), De Meander/ Herman Teirlynck building (office - €212m), Meeus 8 (office -€212m) and Astro Tower (office - €170m). Another notable transaction was the sale of the Toison d'Or - Apple store for €180m to a Belgian private investor and the sale of the Wiltchers Complex (mixed asset with hotel, retail, offices and residential areas).

During 2016, investors were mainly interested in core products located in the CBD. 2016 was indeed an exceptional year in terms of transactions with long term leases let to public administrations. The sale of the RAC 2 (18y), South City (20y), Black Pearl (15y), Meander (18y) and Astro tower (27y) are some examples. In terms of multi-let buildings let on a 3/6/9 year basis, the Neo building (Montoyer 51) in the European district was also sold at a record breaking price.

Value-add deals, opportunistic deals, and buildings in the decentralised district or periphery faced much more difficulties to trade.

Prime office yields saw a significant downward pressure of 100bps compared to 2015 and stand at 4.50% for standard 3/6/9 years leases. Prime office yields on long-term leases stand at 3.6%, an all-time low and a drop of 65 bps yoy.

Yields for prime retail stands at 3.25% for prime high street locations, 4.25% for prime shopping centres and 5.35% for retail warehousing. Prime logistics stand at 6%.

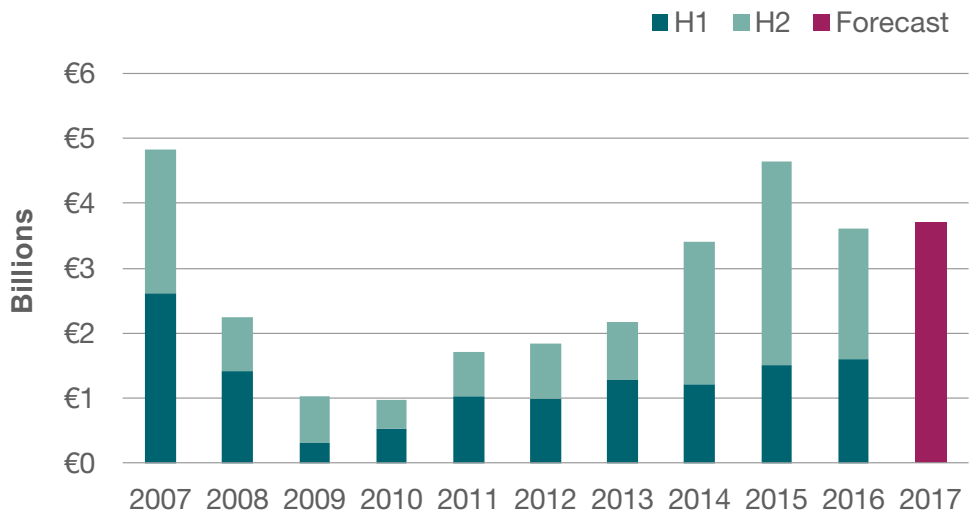
Yields stand at all-time lows in all sectors of commercial real estate. Interest rates have been moving up since its all-time low in Q2 2016, so we don't think yields will drop much more. We estimate a stable yield forecast in 2017.

PRIME YIELDS END-YEAR OUTLOOK

Offices	→
Retail	→
Industrial	→

GRAPH 2

Belgium Investment volume 2007-2017



Source: Savills

TABLE 2

Major investment transactions Q4 2016

Property	Location	Price	Buyer	Usage
Mediacité	Brussels	€255m	CBRE GI	Retail
Meeus	Brussels	€213m	Korea Investment & Securities	Office
De Meander building	Arlon	€212m	Baloise	Office

Source: Savills

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In 2016, the total transaction volume in the commercial real estate marked was approximately DKK 36.4bn; an increase of approximately 17% compared to 2016. Activity was especially high in the second half of 2016 which accounted for DKK 21.4bn. International investors remain eager buyers and thereby continue to push the transaction volume upwards. However, we now see a number of investors who acquired properties within the last 2-5 years beginning to sell.

The Danish economy has in recent years undergone a moderate revival, where we in 2016 experienced a general increase in employment. Increased employment entails a stronger letting demand for office facilities, which ultimately leads to stronger business operations for office properties. Investors maintained this as a focal point throughout 2016 where price increases for office properties were supported by an improvement in rental terms rather than decreasing yields. We expect further growth in the office investment market in 2017 due to a continued decline in the office vacancy rate, and consequently, a strengthening of the business case for office properties. Prime office yields in the largest Danish cities are not expected to decrease noticeably. On the contrary, strengthening of letting demand will have a larger impact on the secondary office market which fuels an expectation of some level of yield compression over the course of the year.

Investor focus on high street properties was strong throughout 2016 with both international and domestic investors targeting the prime high street segment which contributed to a yield reduction during the year. International investors mainly focus on Copenhagen and typically approach the market with a "value add" investment strategy where the focus is expansion of rentable retail area. Within the retail segment shopping centres and retail parks have also made it to the top of the investors' agenda.

In the capital area, a number of shopping centres are currently expanding, which is a step in the fight for the rising business opportunities brought about by increased consumer spending and a growing population in the capital.

We expect that the propensity to invest in this segment will continue to intensify in 2017.

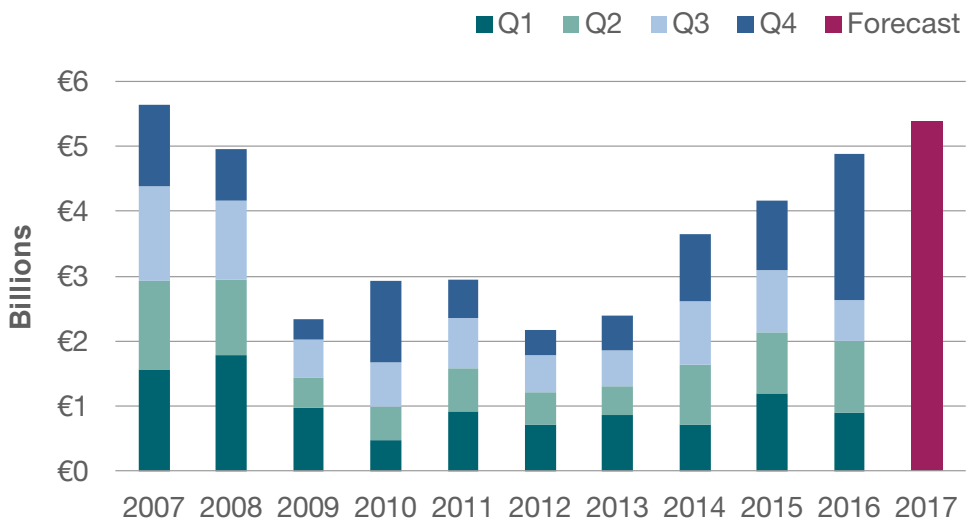
The transaction volume for industrial properties remained at a comparatively low level in 2016. Over the last decade we have seen almost no construction of modern, high-ceilinged facilities within this segment. The lack of new facilities now constitutes an actual problem as the quality and general condition of the buildings cannot match companies' needs.

PRIME YIELDS END-YEAR OUTLOOK

Offices	↘
Retail	↘
Industrial	↘

GRAPH 3

Denmark Investment Volume 2007-2017



Source: Nybolig Erhverv Copenhagen

TABLE 3

Major investment transactions Q4 2016

Property	Location	Price	Buyer	Usage
Portfolio	Capital Region	€90m	Wihlborg Fastigheter AB	Office
Købmagergade 3	Copenhagen	Undisclosed	Private Investor	Retail
Kalvebod Brygge 1	Copenhagen	€201m	Dades	Office

Source: Nybolig Erhverv Copenhagen

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Finland recorded its highest ever annual investment activity in 2016 boosted by the residential portfolio transactions of €2.75bn. The total volume reached €7.2bn, surpassing the previous record of €6.3bn in 2007.

The 2016 commercial investment volume in Finland amounted to €4.43bn; a 5.2% increase on 2015. There is lack of suitable product in traditional commercial property segments and demand for good quality offices, logistics and retail remains high but low supply limits the volume of transactions. Office transactions increased by 24% while retail (-6.4%) and industrial (-22%) transactions decreased in volume compared to 2015 while the number of investments remained stable.

International investors and domestic funds were the most active buyers with a share of 28% each of the total annual volume. Several property funds have been established and new property investors have entered the market. Investors were also showing increasing interest in alternative assets such as health care portfolios.

Investment in the capital region remains strong however interest in regional major cities such as Tampere and Turku is growing. By location, the share of the Helsinki Metropolitan Area accounted for 58% while the combined share of other cities was 42%. Property investment volumes increased by 200% in Turku and by 84% in Tampere compared to 2015.

Sentiment in the investment market remains positive supported by growing economy. Growth is predominantly based on service sector and construction. In the capital region and in a few major cities, construction is currently dynamic. Development has a positive impact on otherwise scarce supply. Due to high demand, however, investment volume growth is limited by lack of desired properties. Competition creates pressure for further yield compression in certain segments. The market still differentiates higher-risk real estate, even if high demand has increased risk-taking. Property fundamentals will be even more pronounced in investment decisions.

Nordic countries constitute a single market area for a number of investors and funds. Intra Nordic portfolios increase supply for large-scale deals and liquidity and New Nordic alliances and funds have emerged in recent years. Their role in the Finnish investment market will strengthen.

The outlook for operating performance in 2017 looks positive based on gradual economic growth and low interest rates. After a long period of subdued rental activity, a slight recovery has been noticed.

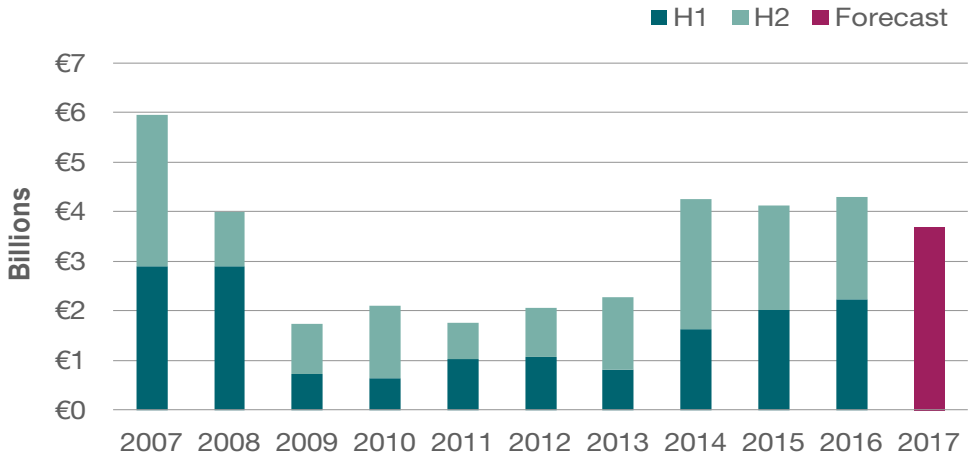
Reduced availability of stock following a long prevailing investment boom suggests a slightly lower investment volume in 2017.

PRIME YIELDS END-YEAR OUTLOOK

Offices	↘
Retail	→
Industrial	→

GRAPH 4

Finland Investment Volume 2007-2017



Source: Realia/Savills

TABLE 4

Major investment transactions Q4 2016

Property	Location	Price	Buyer	Usage
15 office properties	Nationwide	€130m	EPISO 4	Office
Merikortteli	Helsinki	€100m	Antilooppi Ky	Office
Life Science Center Keilaniemi	Espoo	Unknown	NIAM	Office

Source: Realia

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Sustained by very strong demand and a cash-flow which remains substantial, the investment market recorded almost €27.5bn of deals in 2016 – the highest investment volume since 2007.

The level of investment in recent years has been high, but this could also be due to the fact that the funds to be allocated are substantial and rising year on year. This is especially the case for SCPIs which generated increasingly major levels of inflow.

In 2016, growing demand for secure assets, particularly offices, highlighted the supply-demand imbalance and further hardened yields. The prime office yield fell further before levelling out at 3% by mid-year.

The lack of available secure assets is forcing a change in fund strategies. In the search for improved returns, long-term investors are taking on greater rental risk or shifting their attention to peripheral markets. The increase in off-plan property sales (VEFA) is one example of this. With investors widening their radar, there is more competition for assets in the value-added market segment.

The interest in alternative assets is gradually expanding (+7% in 2015; +14% in 2016). This market is characterised by portfolios and forward funding developments. Domestic investors continue to dominate their own market (64%), but a number of flagship deals in 2016 emphasised the interest of foreign investors.

The attractiveness of the French market is likely to benefit from the impact of Brexit, resulting in the relative lack of investor confidence during the period of discussion between the United Kingdom and EU member states.

In 2017, the French market may also benefit from the return of German investors. Having been somewhat sidelined in recent years, the portfolios of the Germans are now suffering from an under-allocation in the French market.

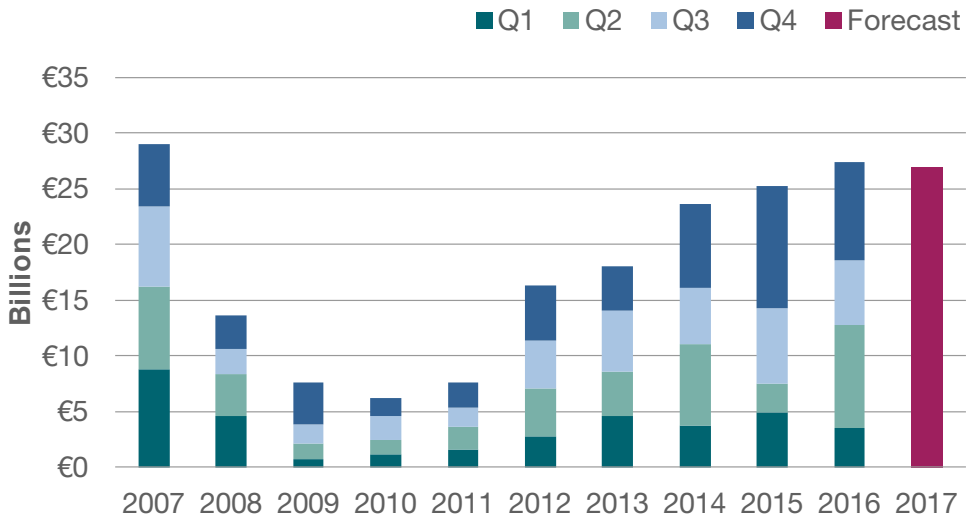
In view of all of these factors, the investment volume in 2017 should be in line with that of 2016. However, market conditions will almost certainly transform. The various schedules for European elections will reveal the new face of the EU and its new strategies in relation to the United Kingdom, the United States and more generally towards the rest of the world.

PRIME YIELDS END-YEAR OUTLOOK

Offices	→
Retail	→
Industrial	→

GRAPH 5

France Investment Volume 2007-2017



Source: Savills

TABLE 5

Major investment transactions Q4 2016

Property	Location	Price	Buyer	Usage
Vendome Saint Honore	Paris	€1bn	Norges Bank	Office
Retail Portfolio	Nationwide	€400m	AEW Europe	Office
Industrial Portfolio	Nationwide	€374m	GIS Real Estate PTE Ltd	Hotel
Meridien Etoile	Paris	€365m	Henderson Park Capital	Hotel

Source: Savills

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Property in the German commercial investment market changed hands for a total of around €52.7bn in 2016. This represents a decline of 9% compared with the previous year but, nevertheless, the third highest transaction volume on record.

For the first time in the current investment cycle, German investors contributed a negative net investment volume of €4.3bn. In the previous years, their acquisition volume was at least hundreds of millions greater than their disposal volume. The fact that prime yields have reached fresh lows may be an indication that some domestic investors have reached the limits of what they are willing to pay. In fact, conversely, they are using the highly-priced market to make disposals. German special funds increased their acquisition volume by 22% compared with 2015 while, at the same time, their disposal volume more than tripled. In total, 62% of the transaction volume was attributable to German vendors, the highest proportion in the current cycle, i.e. since 2009.

Properties in the German office investment market changed hands for more than €23.7bn last year, which represented a 2% increase on the previous year. Offices were by far the most sought-after sector of the commercial investment market, contributing 45% of the overall transaction volume.

The unabated demand for office assets is also being driven by the highly positive outlook for the office lettings markets. Rents in the top seven markets are likely to rise further, with availability becoming scarce and occupier demand remaining high. Expectations of further rental growth caused competition among bidders for available product to intensify further during the course of the year, resulting in further appreciable initial yield compression. In the prime segment, initial yields hardened by 39 basis points across the top seven markets during the year. With many investors increasingly considering properties in secondary locations owing to the increased occupier demand and lack of supply in the CBDs, yields on such properties may harden further.

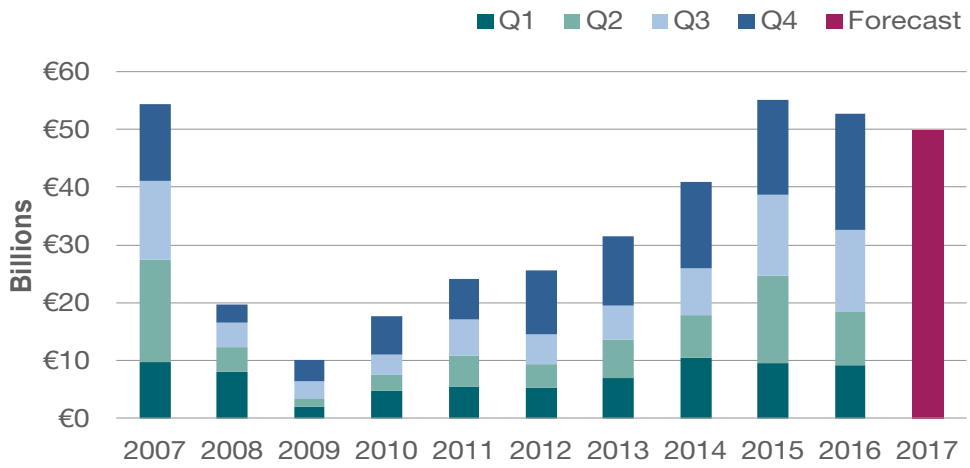
Overall, demand for German commercial property is also set to remain very high this year. Firstly, real estate remains attractive in the prevailing low interest rate environment and, secondly, Germany continues to enjoy a safe haven status among investors. In view of the even more pronounced supply shortage, however, the transaction volume in 2017 is likely to show a moderate decline.

PRIME YIELDS END-YEAR OUTLOOK

Offices	↘
Retail	↘
Industrial	↘

GRAPH 6

Germany Investment Volume 2007-2017



Source: Savills

TABLE 6

Major investment transactions Q4 2016

Property	Location	Price	Buyer	Usage
OfficeFirst Portfolio	Nationwide	€3.3bn	Blackstone Group Deutschland GmbH	Office
Taunusturm	Frankfurt am Main	€780m	GEG	Office
Portfolio (17 properties)	Nationwide	Undisclosed	PATRIZIA Immobilien Kapitalanlagegesellschaft mbH	Office

Source: Savills

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Despite the general uncertainty underlying from the course of the Greek economy's second evaluation and debt restructuring, investment activity during the second half of 2016 was relatively high. The majority of these deals were carried out by key players with keen interest on the Greek market.

Investment activity was divided between different real estate categories with Athens concentrating most of the concluded deals. As in previous periods, the majority of the transactions were carried out by domestic institutional investors with Grivalia REIC being in the forefront. From the most recent transactions we distinguish the acquisition of an office building of Grade A specifications located in Athens' North undertaken by Grivalia Properties REIC. The building features a total area of 19,700 sq m while the transaction amounted to approximately €15m. A second major transaction in the office sector was carried out by an individual investor who acquired, through a tender process, an office building in Athens' CBD owned by OTE Estate for €17,000,000. The building features a total area of 6,120 sq m.

Furthermore, Dimand SA has recently acquired the premises of Papastratos, mainly comprising decrepit storage and old industrial facilities, situated in the area of Piraeus. The first phase of development will take place in the span of one year and concerns the redevelopment of a 5,500 sq m warehouse facility into a 10,500 sq m Grade A office building. The total investment is expected to exceed €100m. In the retail sector, Grivalia REIC proceeded with the acquisition of two supermarkets and of an F&B unit with the total investment amounting to €5.83m.

Lastly, the largest transaction in terms of volume was concluded in the hotel sector. Under a joint venture between the Greek TEMES and the Turkish Dogus Holding the majority of the shares of the landmark Hilton Athens were acquired under a tender process for a total of €140m. The two owners are currently working on a new business plan. The other Greek REIC, Pangaea, acquired a portfolio of assets, comprising one retail unit and two office suites, from Asilo Aniaton for €4.5m.

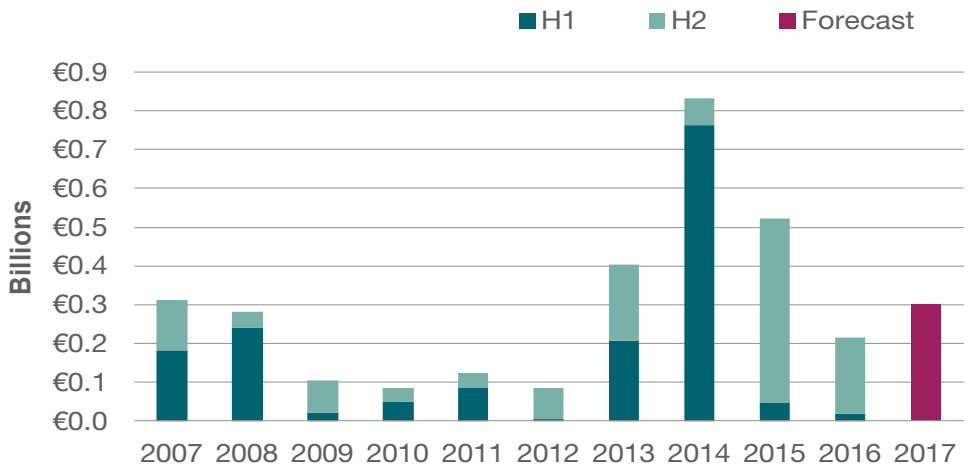
Current prime gross yields in the office market stand at 8.0%, in the retail market at 5.5% and 6.5% for prime high street retail units and 7.25%-8% for shopping centres equivalently and in the logistics market at 10%.
For the first half of 2017, we expect that the Greek REITS will proceed with further strategic investments, focusing mainly on the Greek capital. Such investments are likely to focus on Grade A office buildings and modern retail units. The hotel sector, in line with Greece's continuously improving tourism industry, is also expected to further attract the interest of investors. Lastly, we have observed an increasing interest from opportunistic funds, private equity funds and private offices in acquiring large portfolios of collateralized real estate assets of non-performing loans issued by the Greek systemic banks.

PRIME YIELDS END-YEAR OUTLOOK

Offices	→
Retail	→
Industrial	→

GRAPH 7

Greece Investment Volume 2007-2017



Source: Savills/RCA

TABLE 7

Major investment transactions Q4 2016

Property	Location	Price	Buyer	Usage
Office CBD	CBD	€17m	Douzoglou	Office
Office Piraeus	Piraeus	€13m	Dimand/Grivalia REIC	Office
Office Athens	Athens North	€15m	Grivalia REIC	Office

Source: Savills

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Following a solid performance in 2015, with non-residential turnover totalling €3.5bn, a record €4.2bn of investment property traded over the course of 2016.

Retail's share of Irish property investment turnover increased from 31% in 2015 to 54% last year, with more than €2.25bn of assets changing hands. This was boosted by the sales of Blanchardstown Shopping Centre for €950m and Liffey Valley Shopping for €630m in Q2 and Q4 respectively. Although increased global political uncertainty appears to be weighing on some retail-specific indictors, a rebound in consumer credit, coupled with a continued strengthening of the labour market, suggests consumers' spending power is increasing. This has ensured that both occupiers' demand for retail space and investor interest in the sector remains robust.

More than €1.5bn of office properties were sold in 2016 – accounting for over a third of the year's deals by value. The vast majority of this was located in Dublin. With continued strong growth in office based employment, occupational conditions in the capital remain tight. At 9% vacancy is below its equilibrium level – traditionally 12-15% – and, as a result, the positive rental story has continued with headline rents rising by a further 4.4% over the past twelve months to stand at approximately €645 sq m. Moreover, with much of the ongoing new office development not due to emerge until 2018 or later, rents are unlikely to be threatened over the medium term.

With a significant proportion of standing assets now in the hands of long-term investors, Irish property investment turnover in 2017 and beyond will be underpinned by forward commitment agreements. Additionally, regional retail assets are likely to feature more prominently than previous years.

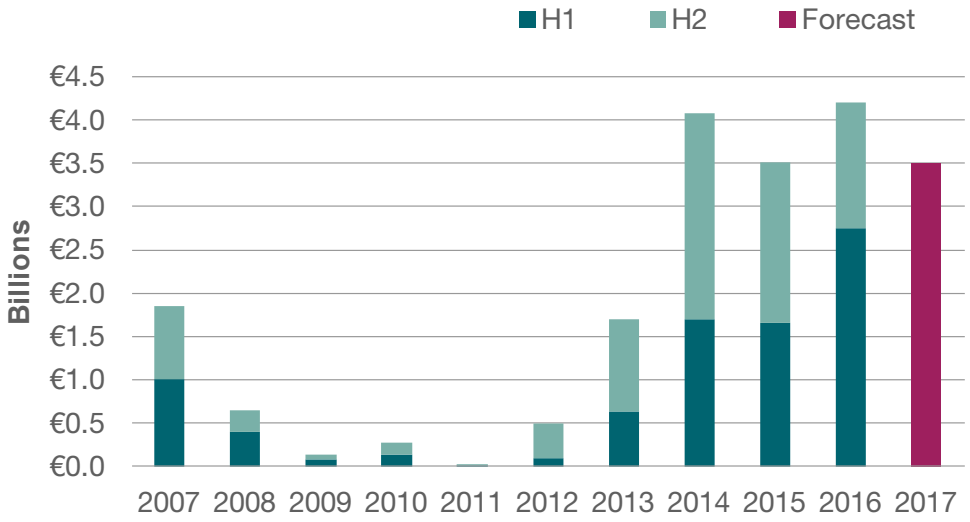
While political concerns have created increased uncertainty about the outlook for future yield movements, recent monetary policy decisions suggest the end of an ultra-low interest rate environment is gradually approaching. The Fed is already on a tightening cycle and, although the ECB has extended its bond-buying programme until at least December 2017, it is tapering this stimulus. This makes further significant compression of Irish commercial property yields unlikely in the current cycle.

PRIME YIELDS END-YEAR OUTLOOK

Offices	→
Retail	→
Industrial	→

GRAPH 8

Ireland Investment Volume 2007-2017



Source: Savills

TABLE 8

Major investment transactions Q4 2016

Property	Location	Price	Buyer	Usage
Liffey Valley SC	Dublin	€630m	BVK	Retail
Wilton Park House	Dublin	€62.3m	IPUT	Office
Harbourmaster 2, IFSC, Dublin 1	Dublin	€53.7m	Real IS	Office

Source: Savills

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Investment volumes in 2016 reached circa €8.6bn (excluding Hilton Molino Stucky - €280m & Enel Portfolio - €535m), the highest annual total ever achieved since 2007 and approximately 25% above 2015.

The office sector drives the Italian real estate market with total office volumes in 2016 reaching circa €3.9bn (circa 45% on the total invested volume) including 57 single asset transactions for a total volume in excess of €3bn.

Activity in the office segment shows investors are focussing on core investments (recently built or just refurbished buildings, located in prime areas and fully or almost fully rented to "top tier" tenants), though not cancelling higher return investments such as value-add products. Prime office net yields in Milan in 2016 are at 4%.

The retail sector remains the most popular asset class with circa €2.5bn of retail transactions in 2016 (30% of total invested volumes) exceeding total retail volumes of 2015 by circa 70%.

This extraordinary performance confirms the strong interest of investors for retail products with focus on prime retail assets located in primary and secondary cities such as Milan, Rome, Bologna and Turin and renewed interest for southern locations with strong fundamentals.

European investors are the most active players with increasing interest from national players - especially for high street products. Prime shopping centres net yields in 2016 are at 5% while prime high street properties are in the region of 3.25%.

The commercial real estate investment market in Italy is expected to remain active in 2017 considering the strong demand for Italian CRE. Investors are still attracted by better returns compared to other EU countries, the devaluation of the euro, interest rates at historic lows and larger liquidity in circulation thanks to the banks' expansive policies.

Savills foresee a positive outlook for 2017 with a strong Q1 performance thanks also to some sizeable transactions slipping over from Q4 2016.

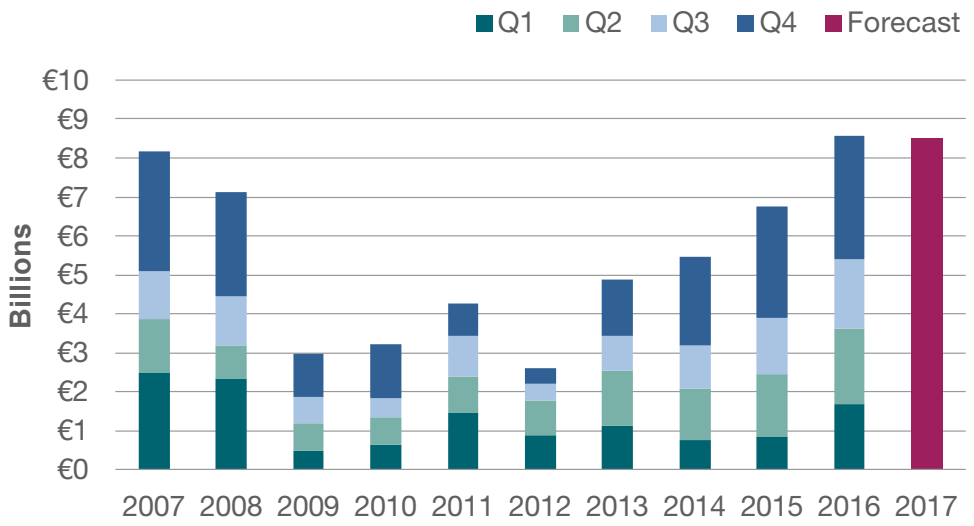
Regarding yields, we foresee further yield compression for prime products within each asset class attesting prime office yields in Milan at 3.5%, prime shopping centres stable at 5% and high street properties in the region of 3% in Milan and Rome.

PRIME YIELDS END-YEAR OUTLOOK

Offices	↘
Retail	↘
Industrial	→

GRAPH 9

Italy Investment Volume 2007-2017



Source: Savills

TABLE 9

Major investment transactions Q4 2016

Property	Location	Price	Buyer	Usage
Intesa San Paolo Portfolio	Nationwide	€500m	Idea Fimit SGR	Office
UNA Hotels Portfolio	Nationwide	€259m	Unipol Gruppo	Hotels
Boccaccio Fund	Nationwide	€230m	Undisclosed	Retail
Palazzo della Lupa	Milan	€220m	Hines	Office

Source: Savills

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Commercial investment activity for the whole year 2016 reached €1.46bn, representing the highest level since the record year of 2007 and a 43% increase compared to 2015.

The fourth quarter of 2016 was the most dynamic with an investment volume of nearly €590m. It was comprised by the mega deal of the year, the purchase by Deka of the €262 million "Atrium Business Park" in Bertrange representing the 4th largest transaction ever recorded on the Luxembourg real estate market. The office complex was sold by the German investment manager KanAm. Another notable deal that was closed in Q4 2016 was the transaction of the Gravity on Kirchberg for around €100m, which represents the first acquisition of LaSalle Investment Management in Luxembourg.

In the CBD, prime office yields are facing a downward pressure standing at 4.5% but are significantly lower for long-term leases (4.20%). Due to the fact that investments in real estate are still offering a yield premium to bonds, the demand for core assets is still high.

Analysing the investor profile in 2016 reveals that foreign investors clearly targeted the Luxembourg real estate market with French investors on the top representing a share of 37% of the total transaction volume. Due to the Atrium Business Park acquisition, German investors hold a share of 18% exceeding the Middle East that holds a 10% share due to the Place de l'Etoile land acquisition. The traditionally most active investors Luxembourg and Belgium both decreased their market shares with national investors having a share of 10%, mainly resulting from smaller lot size deals and Belgian investors contributed to 5% of the transaction volume.

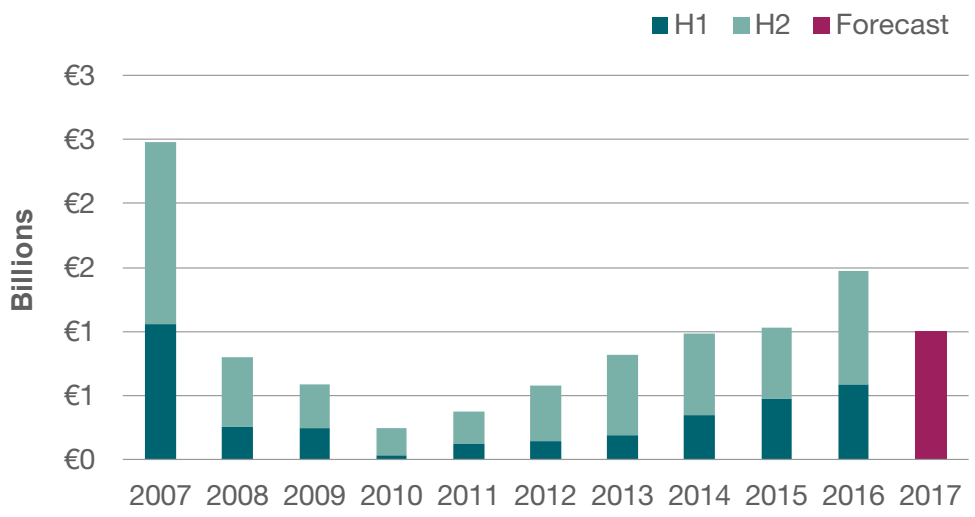
Long term bond yields slightly increased all over Europe during the last quarter, however real estate yields apparently do not follow this trend. Given the positive and stable economy of Luxembourg combined with the importance of available equities, we estimate that the appetite of national and foreign investors to invest in the Luxembourg market will remain high, moving prime yields closer to the 4% threshold.

PRIME YIELDS END-YEAR OUTLOOK

Offices	↘
Retail	↘
Industrial	↘

GRAPH 10

Luxembourg Investment Volume 2007-2017



Source: Savills

TABLE 10

Major investment transactions Q4 2016

Property	Location	Price	Buyer	Usage
Atrium Business Park	Bertrange	€260m	Deka	Office
Gravity	Kirchberg	€100m	LaSalle Investment Management	Office
Centre Royal Monterey	CBD	€60m	National investor	Office

Source: Savills

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Over the course of 2016, the economy continued to perform well. Combined with the positive economic outlook this resulted in increased occupier activity in all sectors, although it has to be said that a significant part of the retail take-up was caused by a reshuffling in high streets due to bankruptcies of some major chains. Within the office market over 800,000 sq m was removed from the stock and converted mainly to residential use, resulting in healthier supply-levels. The logistics market saw a continued growth of demand for high quality e-commerce distribution centres and over 1 million sq m of new developments.

The investment market saw a substantial increase in volumes: from €8.1bn in 2015 to €10.0bn in 2016, for offices, industrial and retail combined. This increase can mainly be attributed to the office market, where investments increased from €3.8bn in 2016 to €6.0bn in 2016 as large portfolios but also prime single assets changed hands. The industrial/logistics market also witnessed a substantial increase, by 33% to €1.9bn, while the retail market saw a 26% drop in volume to €2.1bn.

The share of cross-border investments stood at a high 62.3% over the full year 2016. Largest inflow originated from the USA (€1.9bn), the UK (€1.7bn), Germany (€1bn). A noteworthy fifth on the list was China, due to the €500m core office portfolio purchase by Anbang.

Investor interest will remain high and will remain focussed on the most liquid sectors (offices, residential, retail, industrial). Savills, however expects further increase in the alternative assets, like hotels, care, student housing and renewable energy.

In 2017 portfolios purchased in recent years, whether or not sliced, will be resold. This certainly applies to the office market, where decreased vacancy contributes to higher investor confidence. Office yields remain under downward pressure and will likely drop below the current 4.75% gross.

Within the logistics market, the increasing user demand will continue to attract investors. While the 2016 yield contraction from 5.75% to 5.25% gross leaves limited room for further contraction, it clearly shows the investors' appetite for this sector.

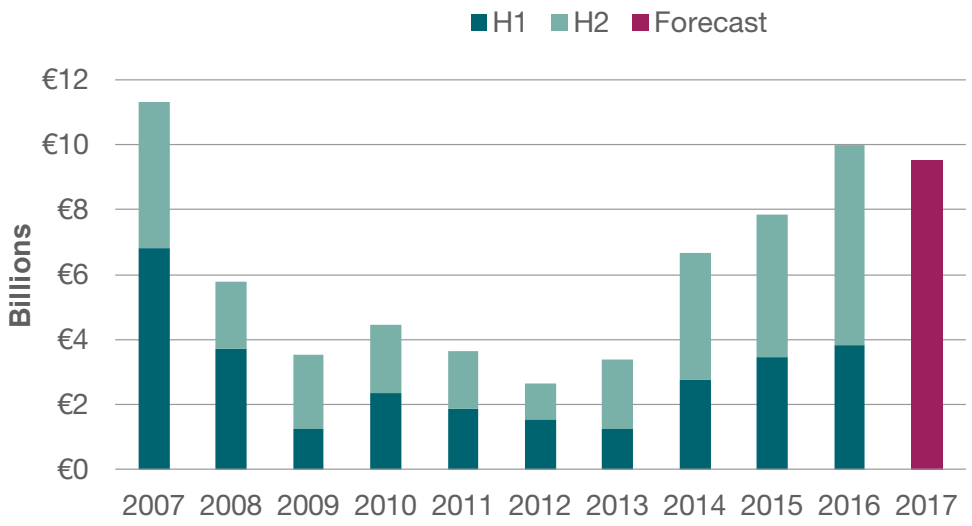
The retail market faces the biggest challenges as rental growth is pinpointed to only a subset of the market. The major high streets will do well, as rents increased and yields remained stable at 3.75%, but a fair share of shopping destinations need to adapt to changing consumer demand.

PRIME YIELDS END-YEAR OUTLOOK

Offices	↘
Retail	→
Industrial	↘

GRAPH 11

Netherlands Investment Volume 2007-2017



Source: Savills

TABLE 11

Major investment transactions Q4 2016

Property	Location	Price	Buyer	Usage
Portfolio Blackstone	Nationwide	€500m	Anbang / Vivat	Office
Transit 2.0 portfolio	Nationwide	€294m	ASR	Office
Hema portfolio	Nationwide	€260m	Crossroads Real Estate	Retail
Central Plaza	Rotterdam	€205m	Cromwell Property Group	Office

Source: Savills

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2016 ended the year with a registered transaction volume of more than NOK 61.9bn (€7.0bn) over 193 transactions, and Q4 was by far the best quarter with NOK 25bn (€2.8bn) in volume. Although the volume measured in value is significantly less than in 2015, the volume is historically very high, and a sign of the volumes to expect as the "new normal".

Throughout 2016, yield compression continued, especially for prime and attractive objects in Oslo, or other real estate with solid cash flows. We estimate the prime office yield at 3.8%, while the estimate for normal property is 5.75%. There have been prime office transactions recorded at even lower levels, but these outliers may be explained by other factors. Greater Oslo is the largest region by volume with 52% of the market. Bergen had a remarkable year with a historical high volume and more than a 10% share of the national value based volume.

The two most prominent segments have been office, making up roughly 45% of the volume, and retail accounting for roughly 20% of the total transaction volume. The share of direct investments from international buyers at the end of the year is a little more than 10%; down from a 35% share at the end of 2015. This is quite a bit lower than what we projected for the year, and it must be noted that it is not an accurate representation of the interest we register from foreign investors.

In 2017, we forecast a total transaction volume of NOK 55bn (€6.2bn). While the office vacancy rate in Oslo declined during 2016, the total office supply (including unbuilt new developments) increased. Several new office projects entered the market after the summer, although most remain unbuilt, 50% have been pre-let.

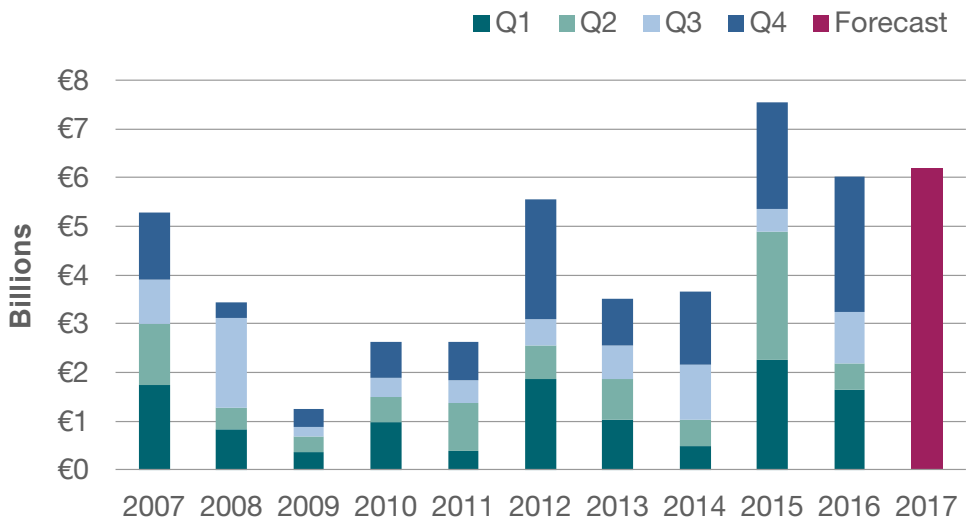
The office vacancy rate remained stable throughout 2016, with the average monthly vacancy rate at 6.9%. This is expected to reduce further in 2017, while rents in central Oslo are increasing and are expected to grow a further 5%-10%. This growth will support a strong investment market throughout 2017.

PRIME YIELDS END-YEAR OUTLOOK

Offices	→
Retail	→
Industrial	→

GRAPH 12

Norway Investment Volume 2007-2017



Source: RCA/Malling

TABLE 12

Major investment transactions Q4 2016

Property	Location	Price	Buyer	Usage
Ica Portfolio	Fornebu	€220m	Union Eiendomskapital	Retail
Ministry of Justice and Public Security	Oslo	€121m	SBB	Office
Healthhouse Fredrikstad	Nationwide	€116m	Undisclosed	Mixed Use

Source: Malling

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2016 ended with the second highest volume of investment transactions at over €4.5bn, which is only 3% lower than in 2006 when close to €4.7bn was recorded. We still observe investors' appetite for both prime and dominant assets and properties with value-add potential.

Some new investment opportunities such as student housing and the residential sector are being scanned by investors which, in the future, may be also reflected in some investment transactions seen in these sectors in Poland.

Cross-border investment is traditionally a foundation of the investment market in Poland with growing share of global cross-border investment. South African investors, Redefine and Rockcastle had a particularly high share in investment volume in 2016 as a result of the record acquisition of 75% in Echo Prime Properties – a portfolio of retail and office assets worth ca. €1.8bn by Redefine and a few acquisitions of retail assets by Rockcastle including dominant regional shopping centres such as Bonarka city centre in Kraków and Galeria Warminska in Olsztyn.

Prime achievable office yields in Warsaware in the region of 5.25% in the city centre and at 6.75%-7.25% outside the city centre depending on the asset type and location. In the most established regional office markets of Wrocław and Kraków prime yields stand at 6.25% for the best assets with widening spread for more opportunistic ones. In Poznan and Gdansk prime yields have decreased slightly to 7.25%, also in Łódz and Katowice some easement to 7.5%-8% has been observed. There are some deals at lower yields expected to be finalised by 2017 year end, however, those transactions should not be seen as benchmark but more extraordinary examples of investment deals.

Prime shopping centre yields in Warsaw and major regional cities stand at ca. 5.25%. In secondary cities, prime achievable yields for dominant, regional shopping centres are at 6%-6.5%.

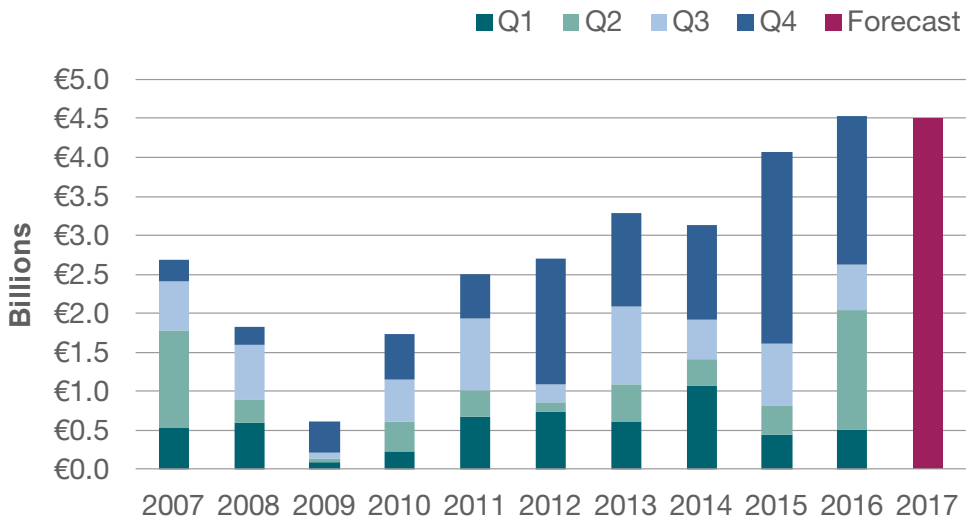
Prime achievable warehouse yields are at ca. 6.75%-7% for a single-let modern warehouses let to financially strong tenants for at least 10 years, in good locations in major logistics hubs. In the case of multi-let warehouse properties, prime achievable yields are at ca. 7.5%-8%, providing that they are leased at market rental levels and well located.

PRIME YIELDS END-YEAR OUTLOOK

Offices	→
Retail	→
Industrial	→

GRAPH 13

Poland Investment Volume 2007-2017



Source: Savills

TABLE 13

Major investment transactions Q4 2016

Property	Location	Price	Buyer	Usage
Echo Retail Portfolio	Nationwide	€668m	Redefine	Retail
Bonarka City Centre (excl. Auchan	Kraków	€361m	Rockcastle	Retail
P3 Portfolio	Nationwide	€285m	GIC	Industrial
Q22	Warsaw	€273m	Invesco	Office

Source: Savills

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The Spanish commercial investment market reached close to €8.2bn in 2016, which signified a slight decrease of 2% with regards to the figure from 2015. This market slowdown was brought about mainly due to the number of deals that decreased by 1%.

This downward trend in activity was driven by the scarcity of available product in open processes, particularly regarding the office sector, and by the lengthy deal closure periods. Having said this, the excess of liquidity on the market has favoured high levels of competition for the same asset.

The decrease in volume of transactions has been offset by the intense activity of so called megadeals (those >€100m). 18 of these of transactions were registered in 2016, 50% above the 2015 figure, accounting for €4.5bn, 51% above the 2015 level and representing 52% of the total 2016 annual data.

The optimistic outlook from the main economic indicators over the coming years, surpassing projections for the rest of the Eurozone, combined with the current good performance, further strengthens the appeal of the Spanish market.

Several deals began in 2016 are expected to be closed during 2017, with the annual volume remaining stable with regards to levels seen in 2015 and 2016.

Rental growth is already a reality for the highest quality products and most sought after locations in all the tertiary markets, but at a slower pace than expected.

New open sale processes will mitigate the lack of supply from the previous year. Part of the new entries will come from SOCIMIs (Spanish REITs) which will begin their divestment activity after the minimum three years rotation period before they can remarket assets to avoid tax on capital gains.

Other players, mainly funds, that are close to finishing the investment cycle of their assets, will also bring new product onto the market, taking advantage of the upward trend in rents and the compression trend in yields.

In any case, the scarcity for prime product in all market segments will continue. This situation will divert interest towards assets where value can be added through refurbishment, updates or improvements in asset management.

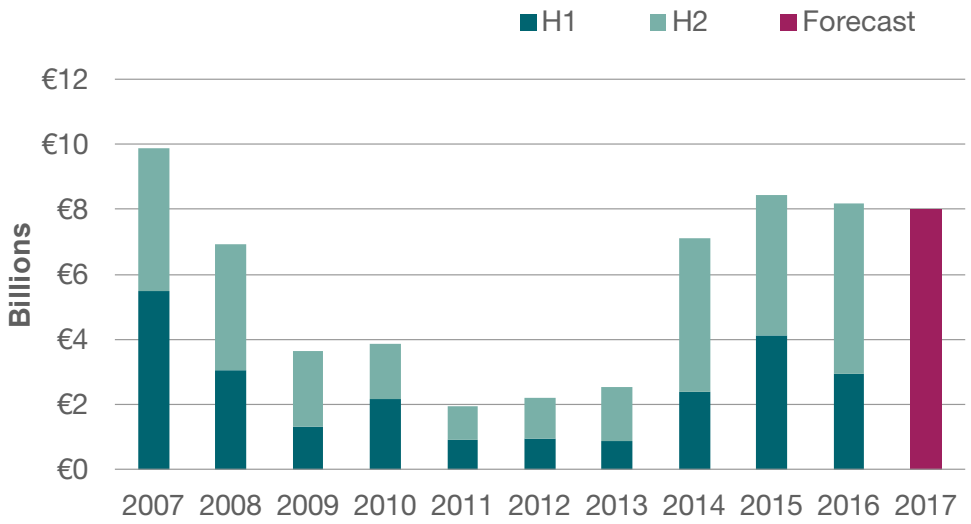
The gap between prime yields in the latest peak in the market and 2016 shows clear potential for further compression in retail parks and industrial/logistics market segments. Prime shopping centres have already reached pre-crisis levels, while offices are below levels from 2007. The recovery in rents will increase this pressure.

PRIME YIELDS END-YEAR OUTLOOK

Offices	→
Retail	→
Industrial	↘

GRAPH 14

Spain Investment Volume 2007-2017



Source: Savills

TABLE 14

Major investment transactions Q4 2016

Property	Location	Price	Buyer	Usage
Hotel portfolio	Nationwide	€535m	Foncière des Regions	Hotel
Avda. de Burgos, 89 - Adequa B.P.	Madrid	€380m	Merlin Properties Socimi	Offices
Hotel portfolio	Nationwide	€350m	Apollo	Hotel
Mango Logistics Unit	Barcelona	€150m	VGP	Industrial

Source: Savills

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The Swedish economy is performing well with a growth rate of 3.1% in 2016 and with a slightly weaker outlook for 2017. The growth is mainly fuelled by strong domestic consumption and the construction industry. The Bank of Sweden has kept the lending rate at record low levels and increased the QE-programme and their prediction for a first lending rate hike is towards the end of 2017.

The transaction market in Sweden hit an all-time high in 2016 with the total transaction volume reaching SEK 201bn (€21bn); SEK 38bn (€4bn) higher than the previous record set in 2014. The turnover for pure commercial properties amounted to SEK 141bn, which also is an all-time high with a volume SEK 9bn higher than the previous record from 2006. The short-term outlook for the transaction market is positive and 2017 has started out with a strong transaction market.

The office sector saw the highest amount of activity during 2016 and accounted for 26% of the transaction volume with a volume of SEK 52bn, which is SEK 5bn short of the 2006 record. Retail performed well and industrial and public properties both set new transaction records in regards of the volume.

In spite of the new record-high volumes in 2016, the transaction pace dropped by 7% compared to 2015. The drop in transaction pace should not be regarded as an indicator of the market slowing down as the pace in 2016 was the second highest figure noted after the 2015 record. The average deal size increased approximately by SEK 90m to just under SEK 320m.

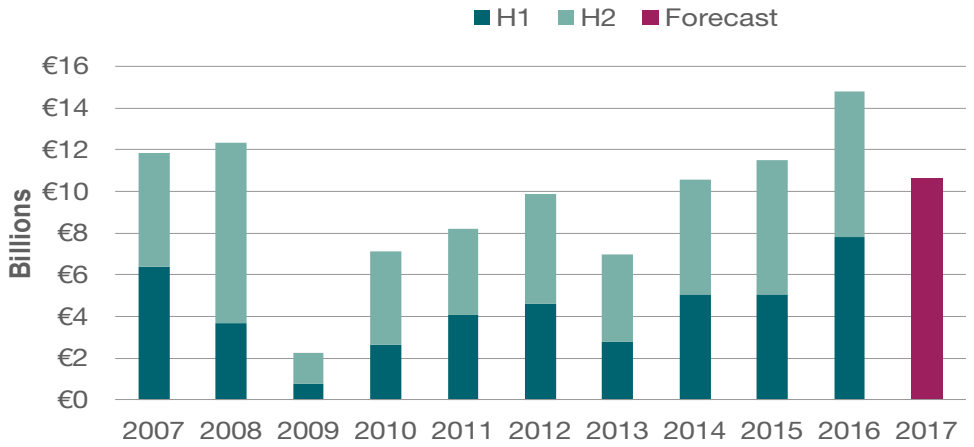
The favourable market situation with sound property market fundamentals and low interest rates, has led to a highly competitive market where the demand by far surpasses the supply and the lack of prime assets has forced investors to consider secondary assets or other sub-sectors. Yield compression has therefore continued in many sectors with record-low yields noted in many segments and geographic markets. Prime office yields in the Stockholm CBD are currently around 3.5%. We expect that the historically low yields across all property sectors will either remain stable or in some sectors harden further during the first half of 2017.

PRIME YIELDS END-YEAR OUTLOOK

Offices	→
Retail	↘
Industrial	↘

GRAPH 15

Sweden Investment Volume 2007-2017



Source: Savills

TABLE 15

Major investment transactions Q4 2016

Property	Location	Price	Buyer	Usage
Office portfolio	Nationwide	€475m	Diös	Office
Volvo facility	Gothenburg	€296m	Platzer	Industrial
Portfolio	Nationwide	€169m	Samhälls-byggnadsbolaget	Other
Snäckan 8	Stockholm	€248m	Slussgården	Office

Source: Savills

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The investment market in the UK performed broadly in line with expectations in 2016, with lower volumes, higher proportions of non-domestic investment and rising yields across most sectors and regions. Not all of these changes should be attributed to the referendum on EU membership, though the 25bps tick up in yields in the second half of the year was definitely due to this.

The total investment volume in the UK in 2016 was around £51bn, a 28% on the record level that was reached in 2015. However, this is still well above the 15 year average of £44bn. The central London investment market also saw a fall (from £19bn to £16bn), though the weakening of sterling did cause a rush of new non-domestic investors into the market in the second half of 2016. Indeed, last year saw a record proportion of acquisitions of London commercial property by non-domestic investors at 80%, with the most active grouping being investors from Asia Pacific.

Looking ahead we expect to see a continued shift in domestic and non-domestic investor focus away from capital value growth to income return driven strategies. This will mean that assets with good income security will become increasingly sought after, and this may well lead to localised price rises. Sectors that will be in demand will include student and seniors housing, well-let CBD offices, large distribution warehouses, and experiential malls. Assets with structural voids or heightened occupational risk are expected to be less popular, as will those with development potential. However, we expect that some of these less popular areas may well be those that will offer the highest returns going forward.

Investors who can create secure income, either through asset management or development, will find continuing strong global demand for their completed products. Thus a slightly contra-cyclical strategy might well be a good one once you have taken account of the asset's quality and local supply and demand fundamentals.

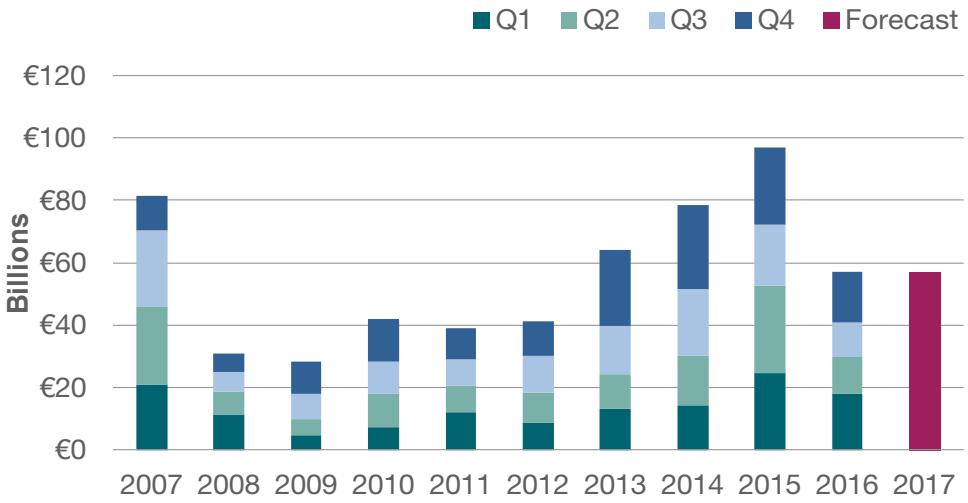
The next five years will undoubtedly be a period of heightened uncertainty in the UK as both occupiers and investors struggle to find some clarity around how the UK will exit from the EU. However, the debt and development markets are more stable than they were during the GFC, and this should limit the downside risks.

PRIME YIELDS END-YEAR OUTLOOK

Offices	→
Retail	↗
Industrial	→

GRAPH 16

UK Investment Volume 2007-2017



Source: Savills

TABLE 16

Major investment transactions Q4 2016

Property	Location	Price	Buyer	Usage
St James Quarter	Edinburgh	€670m	Purchaser	Retail
CityPoint, Ropemaker St	London EC2	€659m	APG (Netherlands)	Offices
Alecta UK Portfolio	Nationwide	€412m	Brookfield Office Prop	Mixed
Pepys Street, 7 London EC3	London EC3	€353m	Goldman Sachs	Leisure

Source: Savills

Key investment indicators

GDP growth, prime rental growth[1], prime yields and yield shift[2] in Q4 2016

City	GDP growth 2017 (f)[4]	Office rental growth	Office yield	Office yield shift	Industrial yield	Industrial yield shift	SC[5] rental growth	SC yield	SC yield shift
Amsterdam	1.7%	5.5%	4.1%	-10	5.25%	-75	0.0%	5.15%	-10
Athens	1.5%	15.0%	7.5%	-75	9.5%	0	0.0%	7.25%	-25
Barcelona	2.4%	7.5%	4.0%	-50	n/a	n/a	0.0%	4.25%	-75
Berlin	1.5%	16.5%	3.5%	-40	5.4%	-30	n/a	4.6%	0
Brussels	1.5%	0%	3.6%	-65	6.0%	-50	0.0%	4.25%	0
Copenhagen*	1.7%	4.35%	4.0%	-25	8.25%	0	11.1%	4.0%	0
Dublin	2.9%	4.4%	4.25%	0	5.75%	-100	12.5%	4.5%	0
Dusseldorf	1.5%	0.0%	4.0%	-10	5.3%	-20	n/a	4.3%	0
Frankfurt	1.5%	0.0%	3.9%	-10	4.9%	-40	n/a	4.2%	0
Hamburg	1.5%	2.0%	3.6%	0	5.0%	-30	n/a	4.0%	0
Helsinki**	1.2%	1.2%	4.1%	-40	5.3%	-125	0.1%	4.5%	-25
London[6]	1.5%	4.85%	3.25%	25	4.75%	-25	0.8%	4.25%	0
Luxembourg	1.8%	0.0%	4.2%	0	n/a	n/a	n/a	5.25%	n/a
Madrid	2.4%	5.7%	3.25%	-75	n/a	n/a	0.0%	4.25%	-75
Milan	0.6%	2.0%	4.0%	-50	7.0%	-25	0.0%	5.0%	-75
Munich	1.5%	2.3%	3.3%	-40	4.8%	-40	n/a	3.7%	0
Oslo***	0.9%	2.6%	3.8%	-45	5.25%	-50	8.3%	4.25%	-50
Paris	1.5%	-9.5%	3%	-25	5.5%	-80	-2.5%	4.0%	-25
Stockholm	2.1%	20%	3.5%	-50	5.5%	-50	1.2%	4.0%	-100
Vienna****	1.2%	-1.9%	4.0%	-50	n/a	n/a	0.0%	4.0%	-150
Warsaw	2.4%	0.0%	5.25%	-25	6.75%	0	0.0%	5.25%	-25

Source: Savills / *Nybolig Erhverv Copenhagen / **Realia / ***Malling/ ****EHL

Note 1: Rental growth is annual and calculated in local currencies

Note 2: Prime yield shift is annual - in basis points

Note 3: First estimations

Note 4: GDP is national, growth is annual and it is the Oxford Economics forecast for the year 2017

Note 5: SC=Regional Shopping Centre. Rental growth refers to prime standard unit of approx 100sqm

Note 6: London offices refer to West End

Note 7: Yields are quoted Net unless noted otherwise

Note 8: Poland industrial yield is long lease ware-house located in major logistics hub

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